

# Mortgage Banking

TECHNOLOGY

## *The Ripple Effect*



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**2008 IT ALL-STARS**

**TECH PROJECT FAILURE**

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# READY *for* PRI

BY STEVE BERGSMAN



Interthinx's *Fraud Angels* team is played by (left to right) Audrey Wasilewski, Teri Bibb, Jill-Michele Meleán and Jeremy Kent Jackson.

# ME TIME

**Interthinx Inc., based in Agoura Hills, California, is a fraud-detection and compliance technology company that has won a loyal audience—as much for its technology as its TV-spoofing training films.**



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he cameraman had already established his space. The actress would enter the room from the left side of the screen and make her way to an empty seat in what would appear on film to be a crowded auditorium. The lighting people were not so set. One man was carting in a huge helium tank. The helium would eventually inflate a large balloon that would sit above the auditorium stage and diffuse light evenly across the background. ■ Standing nearby, looking over her script, was Audrey Wasilewski, who, to television fans, is neighbor Pam on HBO®'s popular *Big Love* series. ■ Overseeing this whole production was no Martin Scorsese or Steven Spielberg, but a busy young woman named Kristi Kennelly, who in real life is the marketing director for Interthinx Inc., an Agoura Hills, California-based provider of risk-mitigation and regulatory compliance tools for the financial services industry. ■ Kennelly had been a Broadway actress starring in such shows as *Cats*, *She Loves Me* and *How to Succeed in Business Without Really Trying*; however, when she came west to California, she ended up not in Hollywood, but with a technology company based north of Los Angeles. ■ Kevin Coop was a senior vice president with Homestore.com in Westlake, California, when he

hired Kennelly to be the company's spokesperson and national trainer. Coop then became president and chief executive officer of Calabasas, California-based Sysdome and brought Kennelly along with him.

When Sysdome was acquired by Jersey City, New Jersey-based Insurance Services Office Inc. (ISO), and then combined with another acquisition, Weldon Spring, Missouri-based AppIntelligence, to form Interthinx in 2005, Coop became president of the new company—and Kennelly got a new job.

Interthinx products are used to prevent mortgage fraud and compliance violations and to assess risk—not exactly the storyline of many Hollywood movies. So, while looking for a unique way to get her company's message across to the mortgage industry, Kennelly also realized that, with fraud quickly becoming a national problem, there was an industrywide need for basic training material. She went to Coop and suggested doing a training film, but it would be with a light touch—a parody of the popular television drama *CSI: Crime Scene Investigation*.

"A spoonful of sugar helps the medicine go down," jokes Kennelly, referencing *Mary Poppins*—both the movie and new Broadway show based on the movie. "This could be very dry material if it doesn't grab the attention of an audience. We do this in a story format so everyone remembers it, versus a PowerPoint® presentation, which no one remembers," she says.

Coop liked the idea and made one suggestion—involve Interthinx customers as story consultants. He and Kennelly then went one better, and invited company clients to be in the film.

The result of their idea was *FSI: Fraud Scheme Investigation*. The little training short produced in 2006 won more than a dozen media awards and was even a special selection for the Toronto Comedy Film Festival.

"We made *FSI* for the mortgage industry," says Kennelly, "but orders started coming in from the FBI [Federal Bureau of Investigation], Department of Justice, Veterans Administration, Department of Homeland Security and, most recently, the Secret Service."

In January, Kennelly began research for her next film—a training short on the subject of foreclosure scams based on feedback from mortgage fraud experts. Getting the Kennelly-parody touch this time is the vintage television show *Charlie's Angels*. That is why Kennelly was standing in the multipurpose room of Lindero Canyon Middle School in Agoura Hills, watching the director organize the auditorium shoot of *Fraud Angels*. The story on this one revolves around a slick promoter who is pitching Investment Club Kids, or ICK, and seducing the audience into giving up Social Security numbers. The plot, says Kennelly, was inspired by a real scam, though the film is fictional and does not depict any actual person or event. (More information can be found at [www.fraudangels.com](http://www.fraudangels.com).)

Among those standing around getting ready for their scenes was Michael Stuckey, in real life the director of the real

estate underwriting department for American General Finance, Evansville, Indiana. Stuckey was also a veteran of *FSI* and now was readying for *Fraud Angels*, where he was essentially a walk-on. "*FSI* was a great training film, which my department uses," says Stuckey. He was expecting *Fraud Angels* to be equally useful, as well as entertaining.

"Those of us who have been in the business for many years continue to be amazed that our industry hasn't paid more attention to the quality of mortgage loans," adds Barbara Sydow, owner of Barbara Sydow LLC, a Denver firm that helps mortgage companies improve processes.

Sydow, who also has a walk-on role in *Fraud Angels*, found Interthinx's first movie, *FSI*, to be "very helpful." She also has high hopes for *Fraud Angels*—not because she was going to be in it, but because, as she stresses, "Training people about fraud prevention has become critical."

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### Fraud

With property valuations decreasing and home sales on the decline as well, lenders now have time to go back into their portfolios to see if the loans they made were solid, while at the same time initiating a host of policies and programs to spot fraud in future originations.

According to Interthinx research, from 2004 through midyear 2007, as property values declined, incidents of identity-related mortgage fraud increased in each of those same years.

It went up 29 percent in 2004, 33 percent in 2005, 36 percent in 2006 and 39 percent through June 2007.

Other organizations are seeing the same kind of trend in their numbers. In 2007, banks filed 47,717 reports of fraud, up from 21,994 two years ago, reports *The New York Times*, citing statistics from the Federal Bureau of Investigation. As of the end of 2007, the FBI had 1,210 open mortgage fraud inquiries—three times the number in 2003.

Obviously, mortgage technology companies such as Interthinx are on the vanguard of fraud detection. Since the subprime crisis erupted like a volcano last summer, fraud-prevention and compliance-technology companies have unveiled a host of new products. Interthinx, for example, has introduced new or expanded services almost once a month since then, including automation of third-party reviews such as those conducted on mortgage brokers, originators, correspondents, appraisers and builders, and integration of its Clear Value<sup>SM</sup> cascading automated valuation model (AVM) technology directly within the company's fraud-scoring system.

At the end of 2006, SecurityNational Mortgage Co., a Salt Lake City wholesale lender, chose Interthinx technology for the first time.

"We were using some AVM-type products, and yet we didn't feel like they were giving us good information on borrowers," explains Ken Parr, SecurityNational's operations manager. "By using Interthinx, we felt we would get better information on the borrower and the value of the property all in one shot."



PHOTOGRAPH BY MOSES SPARKS

He adds, “There is plenty of fraud out there, and we at SecurityNational felt we needed to take a proactive stance. Interthinx had the tools to really give us more coverage for what we are paying.”

### **Building a better company**

“We were mortal enemies,” Coop laughs, referring to the predecessor companies Sysdome and AppIntelligence. “We were the two primary tech firms in the fraud/risk-mitigation space for originators,” he continues. “We were the No. 1 and No. 2 companies, and fierce competitors. ISO saw the opportunity to come in and roll us both up.”

ISO provides products and services that help measure, manage and reduce risk for a number of industries, including insurance, real estate, health services, human resources and finance. It does all that by offering data, analytics and decision-support systems. With its Sysdome and AppIntelligence acquisitions, ISO was able to bolster its penetration into the mortgage market.

While ISO is a privately owned company and doesn’t report revenue, Coop says if one totals the revenue of all the firms under its umbrella, the sum would be in the billion-dollar range.

When Coop headed up Sysdome, he immediately saw the advantages of being part of a bigger company—tying into a firm totally focused on data and analytics; a large pool of resources; existing data and recovery centers; redundancy that could be leveraged; and “dramatically” more investment dollars

**(Left to right) *Fraud Angels* creators Kristi Kennelly, producer, and Emmy® Award-winning Mary E. Harris, writer.**

that could be put toward development of new product lines.

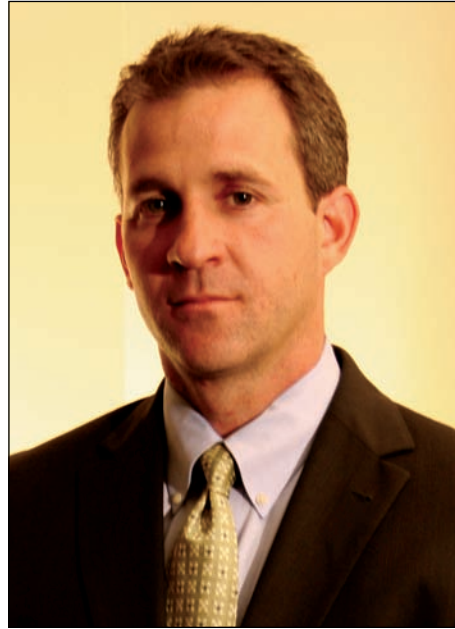
As of the end of 2007, Coop says Interthinx had become the nation’s leading provider of proven risk-mitigation and regulatory compliance tools for the financial services industry. He backs up that assertion with this: More than 1,400 customers, 15 of the top-20 mortgage lenders and three of the top-five financial institutions use Interthinx products, he says.

Coop sees his firm as a “high-growth” company, and he targets corporate growth to be in excess of 25 percent annually regardless of market conditions.

“For the past three years, we have hit that goal,” he says, which is a considerable statement considering risk technologies were at a distinct marketing disadvantage until 2007. Interthinx and companies like it were selling into the biggest headwind the technology side of the industry had ever seen—rampant mortgage volume.

“The average lender didn’t care about the quality of the loan,” Coop maintains. “They were more worried about loan capacity, that they could actually complete all the applications they were seeing. In a low-interest-rate environment with high volumes of business, if there was a mistake you could always fund more volume, which masked the problem. It was difficult to get people to devote their attention and efforts to quality.”

That all has changed. With the subprime catastrophe and



**(Left to right) Kevin Coop, president of Interthinx Inc.; Mike Zwerner, senior vice president of development and marketing; and Roger Fendelman, vice president of compliance, are seeing increased industry need for the company's products**

subsequent credit crisis that began this past summer, lenders now are focusing heavily on the quality of loans. That's the good news for Interthinx. And the bad news? Application volume will fall, as numerous subprime lenders folded their tents in 2007. While overall lending has plummeted, more lenders are employing technology to understand and improve loan quality.

"When customers close the door, it does have a short-term impact," says Coop, "but barring any more unforeseen, catastrophic closures, we believe the bad news is working its way through the system and 2008 will be a good year for Interthinx. We will exceed our 25 percent growth rate in 2008."

#### **Building a better product**

Since the company acquisitions and subsequent creation of Interthinx in 2005, the company supported the flagship products of both predecessors. In the meantime, the new Interthinx began building a "new-generation super product," says Coop. That product is FraudGUARD®, and Interthinx now offers migration tools for customers to move to the new product.

Interthinx combines its national fraud-protection database (comprised of LexisNexis® research on mortgage fraud and parties involved in mortgage fraud; data from daily article searches; and weekly Department of Justice filings) along with advanced technology and data collection to create substantial fraud-detection systems. The company's best-known product is now FraudGUARD, which is a comprehensive, electronic, loan-level detection solution for lenders and investors.

FraudGUARD uses what Interthinx calls FraudNET<sup>sm</sup> technology, which is basically a network of data, pattern-matching analytics and industry experience. FraudNET data come from four sources: proprietary data; application data (derived from millions of loan applications over a period of 10 years); third-party data (nearly 200,000 reviews on third-party providers, including brokers and appraisers); and shared data.

As an example, SecurityNational's loan origination system (LOS) has a direct interface to Interthinx's Data Integrity Search and Score (DISSCO<sup>sm</sup>)—a FraudGUARD predecessor technology—so that from within the LOS, SecurityNational

can order the DISSCO report. Meanwhile, information in the LOS is verified through DISSCO, says SecurityNational Mortgage's Parr. "Specifically, DISSCO does a Social Security check on the borrowers, checks to see if the appraiser is on a watch list, will do a reverse phone search on the employer, as well as a number of other tasks," he says.

Parr adds, "We get a much more comfortable feel that the buyer is for real, and that we don't have a straw buyer."

"Straw buyers" are individuals serving as covers for questionable transactions who are made to believe they are not responsible for loan payments. Misrepresentation in borrower occupancy and use of straw buyers seem to be the fraud types of choice in today's market, especially among properties valued at more than \$500,000, Interthinx reports.

"We feel comfortable that Interthinx's products are giving us the value we are looking for, and also preventing fraud by identifying people where the information is just not correct," says Parr. "I don't think I can put a dollar amount on what we have saved, but I know that we decline loans daily in all of our offices and that is a direct result of the feedback information from Interthinx's products. This has been especially important in the areas of property values in soft markets and Social Security number fraud. It doesn't totally prevent fraud, but it gives us the tools to screen it out in an efficient manner and at a reasonable cost."

SecurityNational, Parr adds, intends to upgrade from DISSCO to FraudGUARD in the near future.

The company claims in its advertising that approximately 500,000 loan applications are captured monthly by its systems. Interthinx also maintains it is the largest aggregator of application data. The company spends more than \$2 million annually on data acquisition, says Mike Zwerner, Interthinx's senior vice president of marketing and business development. The data are used to cross-reference information in the process

of fraud detection. "It is our second-largest cost after employees," he says.

Other Interthinx products include:

- Property valuation/appraisal tools, including a cascading AVM;
- Third-party review tools, including RegsData, which verifies loan originator licenses;
- Identity verification tools, including SafeCheck<sup>sm</sup>, which identifies multiple Social Security numbers, invalid Social Security numbers and Social Security numbers of deceased people;
- Income-verification products;
- Data-integrity searches and electronic loan review;
- Consulting services, training and audit tools; and
- Regulatory compliance solutions.

Of all the arenas in which Interthinx mixes, probably the most competitive field is compliance, which is in some regards a relatively newer service for the company. Nevertheless, Roger Fendelman, Interthinx's vice president of compliance, says his company's advantage is that it is unique in that it offers full regulatory compliance and full fraud products all created by one technology firm.

"Don't get me wrong—the other companies have good compliance solutions," Fendelman says. "But they don't do compliance and fraud. When they need to include fraud prevention, the other companies will partner with another technology firm that specializes in that product."

Fendelman adds, "Our fraud tool is very accepted, and people acknowledge there is no way they could build something like that. Our compliance product is newer to the market, but we have been building this for the past seven years and literally put millions of dollars into it."

In October, Interthinx added licensing and prepayment-penalty modules into its automated regulatory compliance solution. Interthinx added a capability for customers to input company licenses and then selectively trigger state-level tests. This allows originators of all types to satisfy investor guidelines, which usually require application of state laws regardless of whether the laws actually apply to the company.

The company also added in October a second critical module that does comprehensive and detailed prepayment-penalty testing.

#### Basic M&A

Although, as Coop says, Interthinx has a very healthy research and development (R&D) budget, which will be increased in 2008, ISO has been a very aggressive acquirer, and its individual firms such as Interthinx, backed by the parent company, are not shy about making necessary deals.

In 2006, the company completed two deals, buying Los Angeles-based Domus Systems, a provider of automated compliance and reporting services to the affordable-housing industry, and RegsData, the Milford, Connecticut-based automated mortgage licensing compliance services firm.

In 2007, Interthinx added NIA Consulting Ltd., a Mason, Texas-based provider of fraud-detection and forensic-audit services for the home mortgage and mortgage insurance industries.

"With the mortgage industry experiencing a dramatic increase in early payment defaults and foreclosures, comprehensive loan audits are essential to combat these challenges," Cecil Rhodes, president of NIA Consulting, said at the time of the acquisition. "The fusion of our forensic-audit services, proprietary technology, methods and data with the Interthinx fraud-detection suite of products will provide a unique solution for mortgage lenders," he added.

The acquisition of RegsData was a situation where company executives saw an opportunity to strengthen third-party product offerings, says Interthinx's Zwerner, which includes oversight of mergers and acquisition (M&A) activity. "NIA Consulting expanded an area that we were already involved in. We had an internal fraud investigative unit that primarily served our existing customer base; with the NIA acquisition, we expanded the breadth and depth of our investigative and audit services tremendously. Domus Systems, a third acquisition, was unique in that the business serves the needs of the affordable-housing industry."

The pace of deal-making is steady, but it would be even more aggressive if the market were not in its current state. "For every 10 deals you look at, you are lucky to get one," says Zwerner. "My pipeline is constantly full of potential acquisitions. What we focus on are companies that provide risk-mitigation solutions to the mortgage lending industry."

Interthinx is currently not looking for companies outside of the mortgage industry, but is always interested in firms that provide complementary solutions to different parts of the mortgage process. "FraudGUARD and our other current products are used by lenders from origination through securitization," Zwerner says. "Each part of the mortgage process utilizes tools that help mitigate risk—therefore, any company that provides these types of solutions would be a candidate for acquisition."

With the market depressed, one would assume there are plenty of companies that need to sell their assets. "Those are companies you probably don't want," says Zwerner. "The companies that previously were profitable and are good strategic fits, but have been recently impacted by the market, are still possible targets for acquisition."

But, he adds, in the current real estate market "there is often a valuation gap between buyer and seller."

Conventional wisdom suggests that because the market is down, there should be some great opportunities for buying companies. But the reality is, people with good companies don't want to sell because the market isn't right, Coop observes.

Interthinx is not desperate to make a deal, Coop adds. "We are looking for opportunities where we can acquire, but will also continue to build through organic growth." **MB**

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